STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

23 October 2019
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 6 pages with **FOUR (4)** Questions only. (Including Front Page and Consolidated Financial Statements)
2. Answer **ALL** questions.
3. Write your answers in the Answer Booklet provided.

QUESTION 1 & 2

British American Tobacco plc (BAT) is a British multinational cigarette and tobacco manufacturing company headquartered in London, United Kingdom. It is the largest publicly traded tobacco company in the world.

BAT has a market-leading position in over 50 countries and operations in around 180 countries. Its four largest-selling brands are its native brand Dunhill, US brands Lucky Strike, Kent and Pall Mall. Other brands that the company markets include Benson and Hedges and Rothmans.

CHAIRMAN'S REVIEW AND MANAGEMENT DISCUSSION & ANALYSIS

A strong set of results

We have continued to deliver for shareholders and I am very pleased to report a strong set of results, with market share, revenue and profit all growing.
In a year when the Group became truly global following the acquisition of Reynolds American, we are now in an even better position to shape the future of our industry during a period of profound change which can deliver benefits for consumers, society and investors alike.

Acquisition of Reynolds American

The deal to acquire Reynolds American not only creates a stronger, global tobacco and Next Generation Products business, committed to delivering sustained long-term profit growth and returns, it also enables us to leverage the complementary skills from our new, enlarged workforce. The Group now has a balanced presence across emerging markets and developed markets, including the attractive US market.
We are committed to transforming tobacco by using our enhanced resources following the acquisition to deliver even greater choice for our adult consumers – across the combustible portfolio as well as those potentially reduced-risk products like vapour, heated and oral tobacco.

Additionally, increased access to a significant proportion of group cash flows provides further support to the Company's continued commitment to a dividend pay-out ratio of at least 65%. We will also retain a strong financial profile, with the group targeting a solid investment grade credit rating through progressive deleveraging.

Quarterly dividends

The dividend in respect of 2017 is 195.2 pence, being an increase over 2016 of 15.2% (2016: 169.4 pence). As announced in April 2017, the group has moved to quarterly dividends with effect from 1 January 2018. In order to effect the transition to quarterly

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dividends, we are committed to ensuring shareholders would receive an equivalent cash amount in 2018 under the quarterly dividend approach as they would have done under the previous methodology.

As part of this process, a second interim dividend of 43.6 pence (equivalent to 25% of the cash dividend paid in 2017) was declared in December 2017 and paid in February 2018. The Board has declared an interim dividend of 195.2p per ordinary share, payable in four equal dividend payments of 48.8p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates. The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates.

Outlook

This is a very exciting time for the tobacco and nicotine industry, and for the Group in particular. The advent of new, potentially reduced-risk products that can satisfy consumers means there are new growth opportunities for the business.

While challenging conditions persist, the Group's approach of placing the consumer at the centre of its strategy, along with a multi-category portfolio of products designed to address their varying preferences, ensures that our business is in an even stronger position to deliver a long-term, sustainable growth.

Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position are attached on the pages 6 and 7.

QUESTION 1 (25 marks)

a) Based on the attached **group statements of profit or loss and other comprehensive income AND statements of financial position,** compute the changes in revenue, profit from operations, profit for the period and earnings per ordinary share for the financial years 2016 to 2017. **(10 marks)**

b) Based on the attached **group statements of profit or loss and other comprehensive Income AND statements of financial position,** Calculate the return on equity and its component ratios (net profit margin, total asset turnover and financial leverage) for the financial years 2016 and 2017. **(15 marks)**

QUESTION 2 (25 marks)

a) Based on the attached **group statements of profit or loss and other comprehensive income AND statements of financial position,** calculate the conversion periods (account inventory periods and account receivable periods) for the financial years 2016 and 2017. **(10 marks)**

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b) Based on **chairman's review and management discussion & analysis**, you are required to support your answer in question 1(a), 1(b) and 2(a) to determine its significance to stock valuation. **(15 marks)**

QUESTION 3 (25 marks)

a) You are given the following information for TnG Company. As of year 1, the company's book value is RM80,000 and its cost of capital is 15%.

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	RM 135,000	RM 130,000	RM 130,000	RM 120,000	RM 160,329
Operating Expenses	100,000	90,000	85,000	70,000	119,900
Depreciation	10,000	11,300	12,770	14,430	14,430
Net income	25,000	28,700	32,230	35,570	25,999
Dividends	8,000	4,355	3,120	12,700	10,820
Expected book value/equity	80,000	97,000	121,345	150,455	173,325
Return on common equity	0.313	0.296	0.266	0.236	0.150

Dividends for year 6 and beyond are expected to remain at year 5 level.

i) Compute TnG Company's abnormal earnings for year 1 to year 5. **(7.5 marks)**

ii) Use an accounting-based valuation model to estimate the value of TnG Company's equity on January 1st of year 1, year 2, year 3, year 4 and year 5. **(7.5 marks)**

b) Distinguish operating income and non – operating income. **(10 marks)**

QUESTION 4 (25 marks)

a) Define each components of cash flow statement and explain the usefulness of cash flow statement. **(15 marks)**

b) Discuss the non-financial factors influencing the corporate projected income statement **(10 marks)**

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Group Income Statement

British American Tobacco Plc.

	Notes	2017 £m	2016 £m	2015 £m
		For the years ended 31 December		
Revenue [1]	2	**20,292**	14,751	13,104
Raw materials and consumables used		**(4,520)**	(3,777)	(3,217)
Changes in inventories of finished goods and work in progress	3(h)	**(513)**	44	184
Employee benefit costs	3(a),(e)	**(2,679)**	(2,274)	(2,039)
Depreciation, amortisation and impairment costs	3(b),(e),(f)	**(902)**	(607)	(428)
Other operating income	3(e)	**144**	176	225
Other operating expenses	3(c),(d),(e),(g),(h),(i)	**(5,346)**	(3,658)	(3,272)
Profit from operations	2	**6,476**	4,655	4,557
Net finance (costs)/income	4	**(1,094)**	(637)	62
Share of post-tax results of associates and joint ventures	2, 5	**24,209**	2,227	1,236
Profit before taxation		**29,591**	6,245	5,855
Taxation on ordinary activities	6	**8,113**	(1,406)	(1,333)
Profit for the year		**37,704**	4,839	4,522
Attributable to:				
Owners of the parent		**37,533**	4,648	4,290
Non-controlling interests		**171**	191	232
		37,704	4,839	4,522
Earnings per share				
Basic	7	**1,836.3p**	250.2p	230.9p
Diluted	7	**1,830.0p**	249.2p	230.3p

(1) Revenue is net of duty, excise and other taxes of £37,780 million, £32,136 million and £27,896 million for the years ended 31 December 2017, 2016 and 2015, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Group Balance Sheet

British American Tobacco Plc.

	Notes	2017 £m	2016 £m
		At 31 December	
Assets			
Intangible assets	9	117,785	12,117
Property, plant and equipment	10	4,882	3,661
Investments in associates and joint ventures	11	1,577	9,507
Retirement benefit assets	12	1,123	455
Deferred tax assets	13	317	436
Trade and other receivables	14	756	599
Available-for-sale investments	15	42	43
Derivative financial instruments	16	590	596
Total non-current assets		127,072	27,414
Inventories	17	5,864	5,793
Income tax receivable		460	69
Trade and other receivables	14	4,053	3,884
Available-for-sale investments	15	65	15
Derivative financial instruments	16	228	375
Cash and cash equivalents	18	3,291	2,204
		13,961	12,340
Assets classified as held-for-sale		5	19
Total current assets		13,966	12,359
Total assets		141,038	39,773
Equity – Capital and reserves			
Share capital		614	507
Share premium, capital redemption and merger reserves		26,602	3,931
Other reserves		(3,395)	413
Retained earnings		36,983	3,331
Owners of the parent		60,804	8,182
Non-controlling interests		222	224
Total equity	19	61,026	8,406
Liabilities			
Borrowings	20	44,027	16,488
Retirement benefit liabilities	12	1,821	826
Deferred tax liabilities	13	17,129	652
Other provisions for liabilities	21	354	386
Trade and other payables	22	1,058	1,040
Derivative financial instruments	16	79	119
Total non-current liabilities		64,468	19,511
Borrowings	20	5,423	3,007
Income tax payable		720	558
Other provisions for liabilities	21	399	407
Trade and other payables	22	8,847	7,335
Derivative financial instruments	16	155	549
Total current liabilities		15,544	11,856
Total equity and liabilities		141,038	39,773

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

Richard Burrows
Chairman

21 February 2018